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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 9, Volume 9

May 30, 2014

Canada

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

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National Overview

Canadian Retail Gasoline Prices Increased 1 Cent per Litre from Last Week

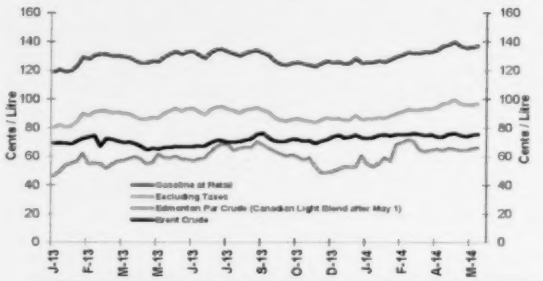
Average Canadian retail gasoline prices for the week ending May 27, 2014 increased from the previous week by less than 1 cent per litre to $1.37 per litre—a two-week high. Higher crude oil and North American wholesale gasoline prices pushed retail pump prices up. Overall, national pump prices are 4 cents per litre higher than last year at the same period.

Diesel fuel prices decreased by less than 1 cent per litre to $1.37 per litre from the previous week. Prices are 11 cents per litre higher compared to the same period last year. Furnace oil prices rose slightly by less than 1 cent per litre compared to last week, and are 10 cents per litre higher than at this time last year.

Recent Developments

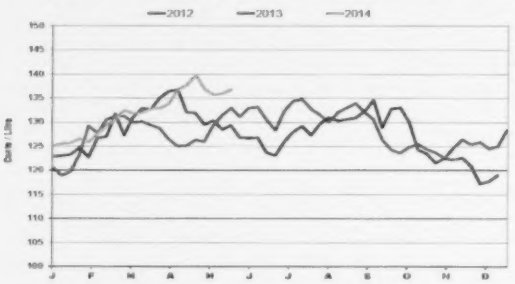
- **Sales of Domestic Refined Products:** Motor gasoline sales decreased by 193 million litres (-3%) to nearly 6.4 billion litres from January to February 2014 compared to the same period in 2013. Diesel fuel sales increased by 76 million litres (+1.6%) to 4.8 billion litres. (Source: Statistics Canada and NRCan)
- **New Motor Vehicle Sales**: The number of new motor vehicles sold from January to March of 2014 rose by 1,458 units to 365 thousand units compared to the same period in 2013. Sales of new motor vehicles in Canada grew by $361,764 to $12.9 billion. (Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/140514/tdq140514-eng.htm)
- **Cost of Air Pollution due to Road Transportation**: According to the Organization of Economic Cooperation and Development (OECD), air pollution is costing advanced economies plus China and India an estimated USD 3.5 trillion a year in premature deaths and ill health and the costs will rise without government action to limit vehicle emissions. In OECD countries, around half the cost is from road transport, with diesel vehicles producing the most harmful emissions. The report calculates the cost to society across the OECD's 34 members at about USD 1.7 trillion, based on the value people attach to not having their lives cut short by cancer, heart disease or respiratory problems. It puts the cost at nearly USD 1.4 trillion in China and nearly USD 0.5 trillion in India. (Source: OECD, http://www.oecd.org/environment/cost-of-air-pollution.htm)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)



Edmonton Par prices are discontinued as of May 1, 2014, and replaced by the Canadian Light crude blend which is traded daily on the Net Energy Index.

Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-05-27	Previous Week	Last Year
Gasoline	136.8	+0.8	+3.9
Diesel	136.5	-0.6	+11.1
Furnace Oil	126.8	+0.3	+10.4

Source: NRCan

Natural Gas Prices for Vehicles

2014-05-27	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.6	75.6	78.4
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

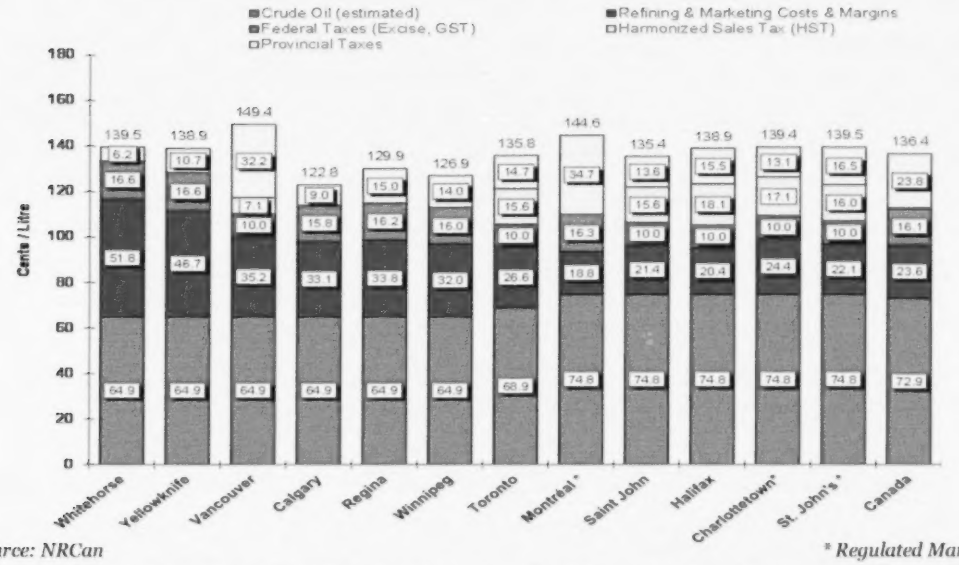
The **four-week average** Canadian pump price in selected cities across Canada was $1.36 per litre for the period ending May 27, 2014. This represents a 6 cent-per-litre increase compared to the same period in 2013.

For the period ending May 27, 2014, **four-week average** crude oil prices remained unchanged at 73 cents per litre from the previous week. The crude oil price component of gasoline is 11 cents per litre higher than at the same time last year.

On average, prices declined in Western centres by nearly 2 cents per litre, while the average retail gasoline price in Eastern centres declined by 1 cent per litre.

The refining and marketing costs component declined by 1 cent per litre to 24 cents per litre for the period ending May 27, 2014. Compared to a year ago, margins are down by 4.5 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 6 to 27, 2014)



Source: NRCan

** Regulated Markets*

Note: Toronto crude oil cost includes pipeline tolls of $4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

Why does the price of crude oil affect the price of fuels such as gasoline?

Crude oil is purchased in U.S. dollars and the price is set in the global marketplace. Crude oil is the raw material used to make fuels such as gasoline. An increase or decrease in the cost of oil determines how much refiners pay to buy and refine the oil into gasoline. Refiners sell their products to marketers and distributors who, in turn, pass on the higher or lower prices to consumers at the pumps.

Gasoline and other petroleum product prices are affected by numerous factors, often simultaneously, which may make prices rise or fall. In addition to changes in world crude oil prices, these factors include: the availability of gasoline supply to meet demand; local competition among gasoline retailers; seasonal gasoline demand; and gasoline inventory levels. Gasoline prices are also affected by seasonal factors. At certain times of the year, refineries switch processes in order to be able to produce winter or summer-grade gasoline, or heating fuels. These changes, as well as refinery shutdowns due to accidents or required maintenance, may affect retail gasoline prices.

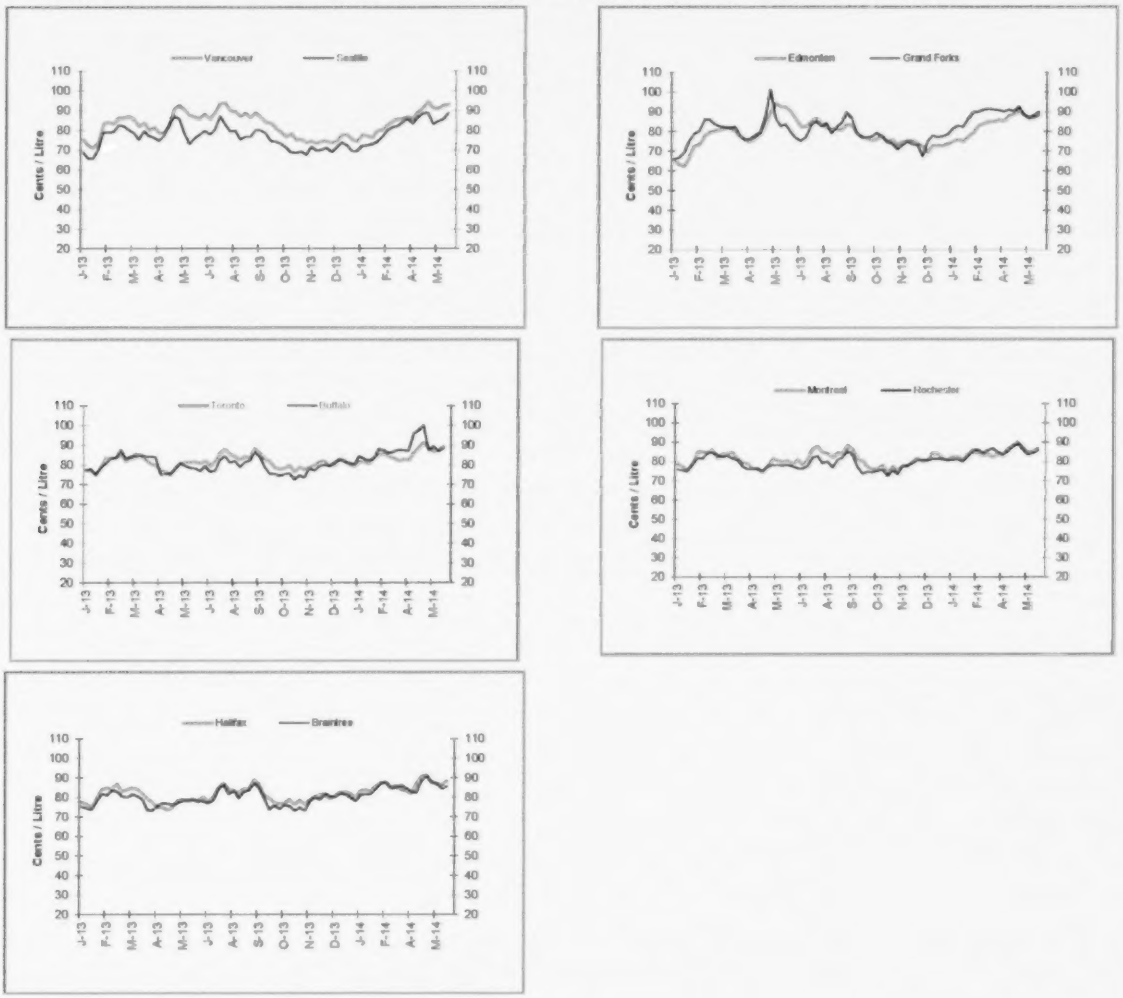
Wholesale Gasoline Prices

When compared to the previous week, wholesale gasoline prices for the **week of May 22, 2014**, increased in all selected Canadian and American centres. Overall, wholesale gasoline prices rose from 1 to 3 cents per litre.

Wholesale gasoline prices in the Western centres fluctuated with increases ranging between 1 and 3 cents per litre, while price increases in the Eastern centres ranged between 1 and 2 cents per litre. Prices in Eastern centres ended the period in the 86 to 89 cent-per-litre range, while in Western centres ended in the 88 to 93 cent-per-litre range.

Overall, prices in most selected centres are above last year's level for most centres with price changes ranging from a decrease of 6 cents per litre to an increase of 11 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending May 22, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

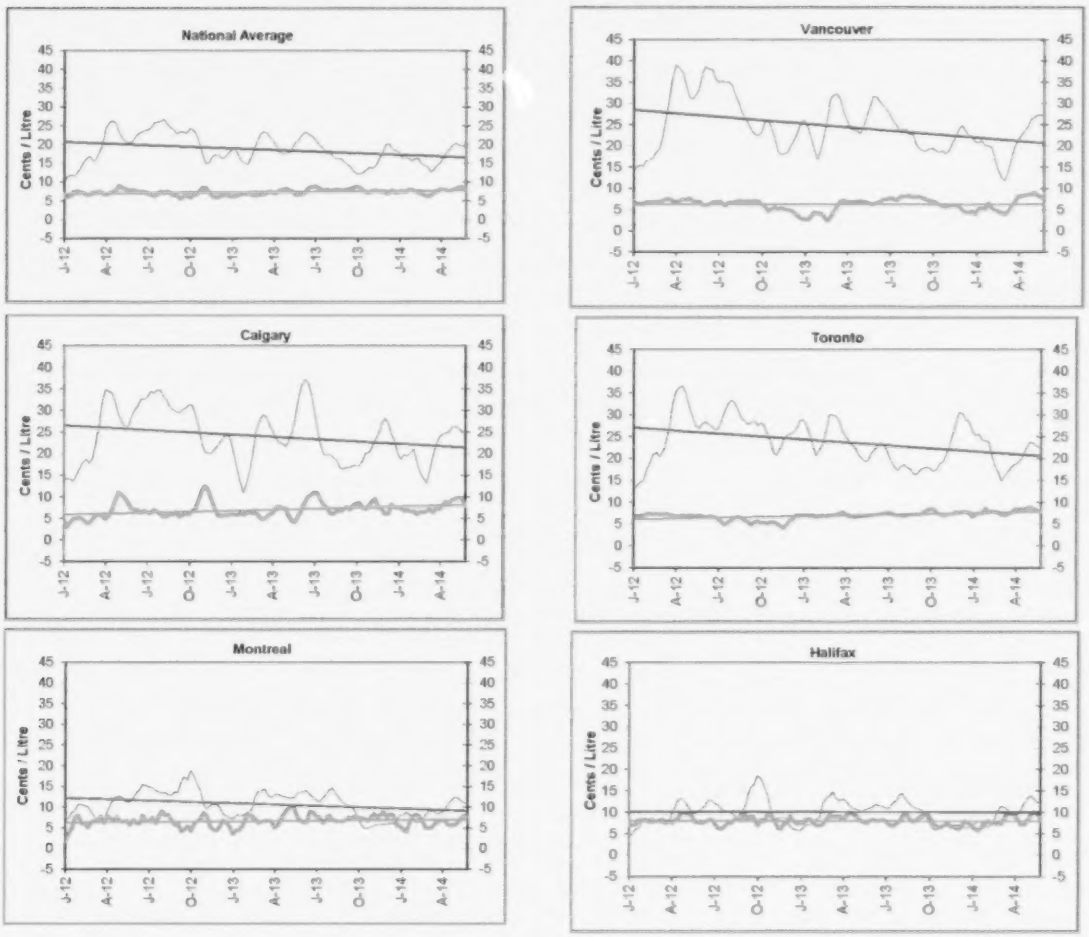
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins fluctuating upward are indicative of a tightening in supplies, while a downward movement is indicative of adequate supply in the distribution system. Seasonal refinery maintenance and outages in North America also tend to constrict supply of refined products, firming up retail pump prices.

Heading into the summer driving season, refiners are now producing more gasoline to meet demand and to increase their inventories.

Marketing margins, representing the costs associated with operating an outlet, hovered at around 8 cents per litre. For the five centres, marketing margins ranged from a low of 7.7 cents per litre to a high of 8.4 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending May 27, 2014
------- Refining Margin ——— Marketing Margin



Crude Oil Overview

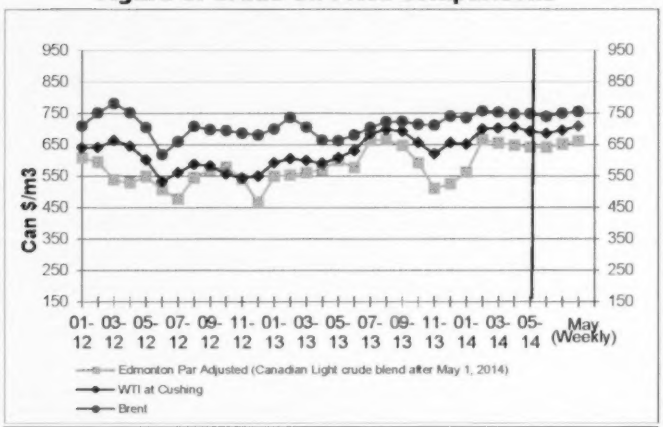
Slight Upward Push in Crude Oil Prices

For the week ending May 23, 2014, crude oil prices averaged between $662 and $755/m^3 (US$5 to US$13 per barrel).

The price differential between Canadian Light Sweet crude and WTI closed at $47/m^3 (US$7 per barrel). The price differential between Brent and WTI was $56/m^3 (US$7 per barrel). North American crude oil prices, such as WTI, firmed up ahead of the U.S. Memorial holiday long weekend which signals the start of the summer driving season and increased demand for gasoline.

High levels of U.S. crude oil inventories partly moderated WTI crude oil prices. Brent crude oil prices were affected by the geopolitical uncertainty in Ukraine and Libya. All three marker crudes – Canadian Light Sweet, WTI, and Brent – have been tracking each other in a steady orderly fashion since February 2014. WTI has averaged at almost US$7 per barrel more than Canadian Light Sweet, and Brent has averaged slightly over US$7 per barrel more than WTI, since February of this year.

Figure 6: Crude Oil Price Comparisons



As of May 1, 2014, Edmonton Par prices are no longer available. The Canadian Light Sweet crude blend is traded daily on the Net Energy Index and is considered a benchmark crude for the Canadian crude market. Net Energy Index reports NYMEX's WTI future settlement prices, and the differential between Canadian Light and WTI; NRCan calculates the Canadian Light price from this information. The two prices – Edmonton Par before May 1, 2014, and CLS afterwards, are considered similar – both are light sweet crudes priced at Edmonton.

Differentials Between Canadian and U.S. Oil Prices Narrow

Until recently, heavy crude blends composed of oil sands bitumen and diluents (e.g., Western Canada Select or WCS) sold at a steep discount to the U.S. light oil benchmark (West Texas Intermediate or WTI). For example, in November 2013, WCS (priced at Hardisty, Alberta) traded as low as US$41.79 per barrel below the price of WTI (which is priced at Cushing, Oklahoma).

On May 15, 2014, WCS closed at US$81.01, only US$19.25 below the price of WTI.

New pipelines such as the Keystone XL southern leg have connected Canadian oil producers with previously hard-to-reach Gulf Coast refineries. The opening of BP's Whiting, Indiana oil refinery, which can process up to 350,000 barrels per day of heavy oil from Alberta's oil sands, was another factor which contributed to higher Canadian heavy oil prices.

Source: Natural Resources Canada

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-05-23		Change From: Previous Week		Change From: Last Year	
	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl
Canadian Light Sweet Crude Blend	661.54	96.52	+9.25	+1.26	+61.10	+3.86
WTI	708.85	103.42	+12.86	+1.78	+92.51	+8.31
Brent	754.65	110.10	+5.01	+0.63	+85.40	+6.82